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REMARKS BY CHARLES A. BOWSER
COMPTROLLER GENERAL OF THE UNITED STATES
AT THE
MONTHLY LUNCHEON MEETING
OF THE
ASSOCIATION OF GOVERNMENT ACCOUNTANTS
ON
NOVEMBER 5, 1981

RAISING FINANCIAL MANAGEMENT STANDARDS: CHALLENGE FOR CHANGE

It is a great pleasure to be here with you today. This is a precedent setting occasion for me, because it is my first public speech as Comptroller General of the United States. It is altogether appropriate, since I have over the years supported the objectives of the AGA, and watched this group make many significant contributions to improving financial management practices in the government.

I would also like to thank AGA for supporting my nomination to be Comptroller General. I appreciate your endorsement as well as that of the American Institute of Certified Public Accountants and the Federal Executive Institute. I am confident that the support from such well respected groups had a significant bearing on the final decision made by the Congress and the White House.

Today, I want to assure you that it is my intention that the General Accounting Office and the Comptroller General will provide strong leadership in the Government's effort to be more effective

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and efficient in the whole arena of accounting and financial management. Improved financial management is essential, if government is going to meet the challenges of this decade.

As you all know, the public is demanding greater accountability for its tax dollars. The traditional lists of expenditure statistics will not satisfy the American taxpayer. They are challenging us to show precisely how efficiently, economically, and effectively the business of government is being carried out--not just how much is spent for what function. This set of circumstances coupled with the recent announcement that the national debt went over \$1 trillion dollars and the interest on that debt is now up to \$100 billion on an annual basis has placed increased attention on the financial aspect of government. The demands for stewardship on the part of financial managers is greater today than ever before in history.

In these troubled times, the Federal government can ill afford to drift along with anything less than superior financial management of its resources. I know from my own experience that a company in the private sector cannot survive indefinitely without solid financial management. The Federal Government, under an obligation to 225 million American citizens who are the shareholders in the nation, cannot weather the storms ahead unless its resources are intelligently budgeted and properly accounted for. For example, it is projected the Defense Department will "spend" one and a half trillion dollars over the next 5 years. It is, by far, the largest 5-year single department expenditure ever

and raises the question as to whether the financial management systems within the Department of Defense are capable of accounting for and controlling such vast expenditures.

The recent change in the method of making funds available to states in the form of "block" grants rather than categorical grants, allows more program flexibility but reduces Federal oversight over such expenditures. This raises the question as to the extent to which the funding made available by such grants can be accounted for and reported upon.

Finally, while the "single audit" approach has been adopted because it is thought to be more cost effective and more comprehensive than past audit procedures, various implementation problems need to be solved before the expected benefits are fully realized.

While the present challenges of high interest rates and inflation are having a serious impact on government as a whole, these same problems may also offer us a ray of hope. In such trying times, government leaders are much more receptive to financial management improvements in their attempts to demonstrate that government can become more accountable and responsive to the needs of the American people.

This can best be illustrated by the New York crisis of the mid-1970's. With 20/20 hindsight, it is fairly easy to see the roots of the City's problems. Although many blame the general economic downturn as the immediate cause of the City's financial crisis, that does not explain why people did not see the "bust" coming. Since local financial law required that the city's budget

be balanced, "creative" and unacceptable accounting practices were devised to meet the balance requirement. Following the exposure of the crisis, the City as well as the New York State government acknowledged that it all might have been avoided if the financial condition of the City had been accurately accounted for and reported in accordance with a set of generally accepted accounting principles. Since then, the City and the State have begun using such principles in accounting for and disclosing of the results to the public.

As each of you know, financial management involves many components. Today, I would like to focus my comments on those problem areas which I view as the key components in the next few years.

--Budget Improvements

Since 1967, we have seen various budgeting improvements implemented with varying degrees of success. Today, the Federal budgeting process is in need of simplification and improvement. There have been several developments in the wake of the changes that have placed strains on the capacity of existing budget concepts and procedures to serve the information needs of the Congress, the executive branch, and the public. One of the most significant is the growth of the Federal budget itself. In 1966, we had a budget of about \$125 billion. Today, the budget is about \$740 billion with over 1,200 budget accounts and 5,000 programs and activities.

Another major problem involves the exclusion of several important Federal programs from the budget, resulting in incomplete budget coverage. Furthermore, the growth in entitlements and other less controllable portions of the budget plus

the increasing number of Federal activities with economic consequences--notably loan guarantees, special tax preferences, and regulations--have created unique problems. In addition, the budget process itself has been encumbered with complicated procedures, paperwork, and measurement complexities that make it difficult for the Congress to use budget information to assess program results and set national spending priorities.

I believe the improvement of our budgeting systems is a major undertaking. So many of the issues which must be addressed are not really within the realm of responsibility of one or even just a few agencies. For this reason, I believe the most effective way of dealing with the major budget issues and concerns facing our Federal managers is to establish a study group, such as has been proposed by GAO and the Committee for a More Responsible Budget. The study group should be comprised of high elected and appointed officials, and other senior experts, who would act as a catalyst for changes in budgeting procedures.

--Accounting Principles

Setting accounting principles and standards for the public sector is one of the most important issues facing the financial management profession. As you know, the Congress has given the GAO the responsibility for setting the principles and standards for Federal agencies. GAO intends to set principles and standards that will serve the accounting disclosure needs of the Congress, Federal managers, and the public as effectively as possible.

Currently, the GAO is in the process of developing a conceptual framework under which the current principles and standards can be

examined. Using the conceptual framework, we will analyze the current principles and standards and revise them to conform with the conceptual framework. In addition, our long-range objective is to incorporate the accounting principles and standards of the Financial Accounting Standards Board and the Government Accounting Standards Board--should the Board become operational--to the extent possible as they would apply to the Federal sector.

Therefore, we are also looking at the recent developments in setting accounting principles at the state and local levels of government. Much effort in this area has centered on defining what organization should be responsible for prescribing the accounting principles and standards.

--Government Accounting Standards Board

In April 1980, after a year of informal discussions, an ad hoc Governmental Accounting Standards Board Organization Committee was formed to study the best approach for filling the void at the state and local level. In February 1981, this Committee issued an exposure draft of a report on state and local governmental accounting and the need for a new structure to establish accounting and reporting requirements. Copies of the Committee's final report should be available within the next several days. The report recommends the creation of a Government Accounting Standards Board equal to the Financial Accounting Standards Board (FASB) and that it be under the same Foundation as the FASB. The draft and the final report were the result of many hours of hard work and endless discussions. Perhaps the largest contributor to this effort was Don Scantlebury who served as AGA National

President in 1976-1977. I would like to take this opportunity to pay tribute to Don for his efforts on this and other important financial management improvements. He was at the forefront of the profession and set high standards for the rest of us to follow.

--Accounting Systems

Historically government accounting has emphasized only fund accounting and fiscal controls to the detriment of managerial accounting and considerations such as cost accounting, debt collection, and cash management.

Every year Federal agencies spend millions of dollars to develop, design, and operate their accounting systems. Although the GAO has attempted to persuade the agencies to obtain approval of the system designs before they are implemented, in many cases the agencies install and begin operation of systems without GAO approval. Frequently the completed system design does not meet GAO requirements and must undergo substantial revision in order to be approved. In some cases, agencies are reluctant to make the changes, while in others the design documentation is changed but the system's actual operation is not.

GAO reviews of operating accounting systems show that many agencies maintain marginal systems which do not provide needed financial information to Federal managers. Data produced by these systems at cost of hundreds of millions of dollars annually is not used by Federal managers because they have no confidence in the reliability, accuracy, or timeliness of the data.

In an effort to improve its accounting systems work, GAO has undertaken a self-analysis of its procedures. The facts gathered during the study clearly indicated that changes can and should be made. We are currently reviewing the results of the study and position papers are currently being prepared on how to improve our work.

--Impact of Computers

The development of highly sophisticated computer technology has, of course, had a resounding impact on the way the government conducts its business. All over the government, there has been a growing number of computer assisted financial management systems. As time passes, these systems widen in scope, become more complex, and are being designed to "link up" with each other. While the systems appear to be more complex, they are becoming easier to use and handle.

Widespread use of the computer will have a tremendous impact on internal controls within government financial management systems. In our experience, extensive implementation of computers in the past two decades has reshaped and refined our thinking of traditional internal controls.

The generally accepted government audit standards recently published by GAO provide some guidance and direction in this area. However, most of us in the auditing profession are still struggling with problems brought on by the explosive growth in technology. We acknowledge that there are problems, but we intend to meet them with a sustained program of training and emphasis on compliance with the standards.

--Internal Controls

Effective accountability of Federal managers to the public, the Congress, and other oversight bodies can only be achieved if reliable means exist to evaluate management's stewardship responsibilities over all resources entrusted to them and their performance in achieving their agencies' mission. We believe internal control systems properly conceived, soundly based, and effectively monitored are the essential prerequisites necessary to achieve good accountability.

Our fraud work has indicated that the best way to attack fraud and abuse is through prevention not detection. Most fraud and abuse occurs because internal controls are either not in place or are not followed. Most of the perpetrators of fraud are not criminals. They are well-meaning people who behave dishonestly because the opportunity--presented by the lack of internal controls--is often too attractive to resist.

Weaknesses in internal controls seem to stem from a lack of attention on the part of management. The Congress has focused attention on the importance of sound internal controls by proposing legislation. The House has passed the "Federal Managers Accountability Act" and the Senate is considering the "Financial Integrity Act" which has similar provisions. Both of these bills would require the head of each agency to make an annual assessment of the adequacy of its controls and develop a plan for correcting any weaknesses. The GAO and the new Comptroller General fully support such legislation.

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In conclusion, let me emphasize that the problems facing the financial management profession today are far more complex than at any other time in history. In the past, good financial management was certainly desirable. Today it is even more essential and will remain so in the future.

The financial management profession needs people who care deeply about it and who believe that the profession will succeed only as long as it attracts and inspires good people. These people must be dedicated and willing to do that "something extra" to make the profession better. We need people who are willing to work very hard at being good in their chosen profession.

I have asked my people at the GAO to give me suggestions on what new directions we should take in financial management. I also plan to ask the advice of outsiders, so that I will have the best advice and counsel possible. I am not sure what the answers will be but we will review the problem areas and we will be developing a plan of action. And I intend to come back to the AGA and explain the plan of action which we develop for the financial management area.

The GAO has a role in the financial management arena as well as AGA. We are looking to you for your input and will be very receptive to any ideas you may have.